The Financial Services Working Group

Rep. Randy Neugebauer, Chairman

FHA: The Next Bailout?

In November of 2012, the Department of Housing and Urban Development (HUD) released the FHA's FY2012 Actuarial Report, raising serious concerns about the solvency of the Federal Housing Administration. The report revealed that the FHA's Mutual Mortgage Insurance Fund (MMIF) – the government fund that insures the FHA's single-family mortgages – was negative $16.3 billion. Even being billions of dollars in the red, the FHA has refused to fully utilize policy tools they have at their disposal to minimize these losses. These include: raising premiums to its maximum levels, increasing down-payment requirements, enforcing existing lender indemnification provisions, and reducing seller concessions. Without implementing these steps, the actuarial report warns that a weak economy could keep the FHA's economic value negative until at least 2018.

Worst of all for taxpayers, the federal government guarantees 100% of FHA's loans. If the FHA faces a large number of defaults, it may resort to its "permanent indefinite authority" to draw funds from the U.S. Treasury - another preventable bailout for a failed federal housing program. The Republicans of the Financial Services Committee have made FHA reform a top priority of this Congress, having already held two hearings on the subject.

What You Need To Know:

- Since 2009, HUD has assured Congress that FHA was fiscally sound. Unfortunately, independent analysis has shown that these projects were based on overly-optimistic, wildly inaccurate projections.

- Though the FHA's historical mission is to help first-time and low- and moderate- income homebuyers, FHA has become a dominant force in the mortgage market since the financial crisis. The three main government advantages FHA uses to crowd out private capital are: exceedingly low down payments, high maximum loan limits, and artificially low up-front premium pricing.

- The Congressional Research Service reported that during FY2010, the FHA guaranteed nearly 40 percent of the mortgages that were originated or refinanced. The FHA currently insures more than $1 trillion worth of mortgages on more than 7 million loans.

- By statute, the FHA is required to maintain the MMIF's capital reserve ratio at 2 percent. In FY2010, the FHA failed to reach this standard for the first time, reporting a .50 capital reserve ratio. During FY 2012, the MMIF's capital reserve ratio fell to negative 1.44

percent, which means that the FHA does not currently have sufficient reserves to cover all of the lifetime losses of its insurance portfolio is projected to incur.

- Prior to receiving $1 billion due to last year's mortgage servicing settlement, the Obama Administration estimated that FHA would need $688 million in emergency funding in its FY 2013 budget. Many industry analysts believe the President will propose another multi-million dollar bailout –whenever the Administration finally releases its 2014 budget.

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